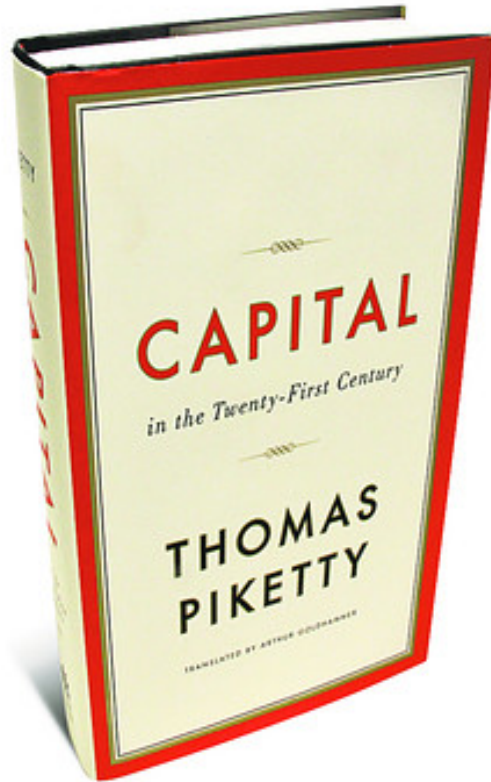# Kansas Economic Policy Conference

Tim Kane
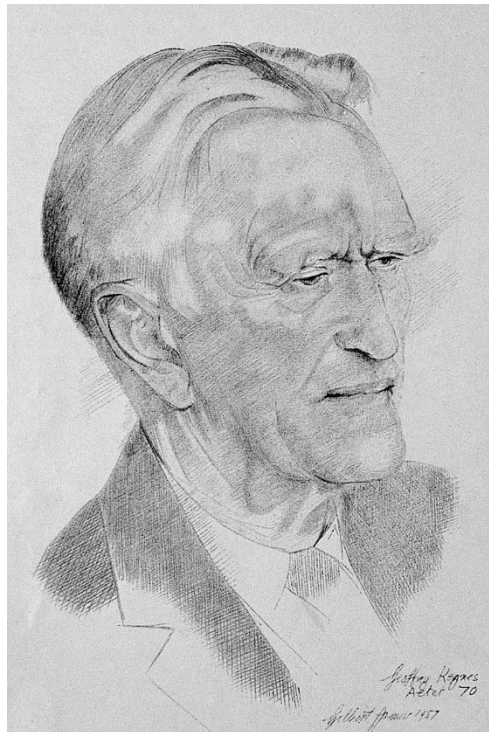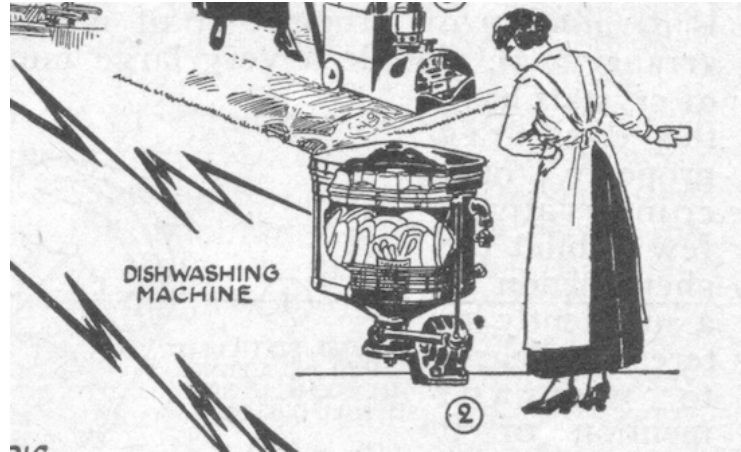*@Timmerkane*
tjkane@Stanford.edu

Piketty's *Capital*

"And the poorer half of the population are as poor today as they were in the past, with barely 5 percent of total wealth in 2010, just as in 1910. Basically, all the middle class managed to get its hands on was a few crumbs."

17,000,000 annual vehicle sales in the US is now the norm.

Ford Model T first sold in 1909.
Ford sold 12,000 in 1910.
459,000 total autos in US, 1910.

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DISHWASHING MACHINE

WORLD'S FIRST TAKE-HOME AIR CONDITIONER
...new PHILCO ¾-hp Bantam 12—smallest room air conditioner made!

TAKE IT HOME TODAY BE COOL TONIGHT!

LOOK AHEAD... and you'll choose PHILCO

http://www.tradingeconomics.com/united-states/total-vehicle-sales

My Answer to Piketty's "Crumbs"

1. Make a list of things that did not exist in 1910.
2. Ask people how much they value these things using an online survey.
3. Calculate the Consumer Surplus (CS).

But first … we have to read up on what economists call *contingent valuation*. Whoops. Turns out to be rather controversial. Turns out there may be something even bigger than CS.

Consumer surplus is a measure of the excess value buyers experience when consuming a good, which is more than the price paid. All buyers pay the price, P_0, but some buyers are **_willing to pay_** more, hence the Demand curve.

Price

Consumer Surplus

P_o

Q_o

Quantity
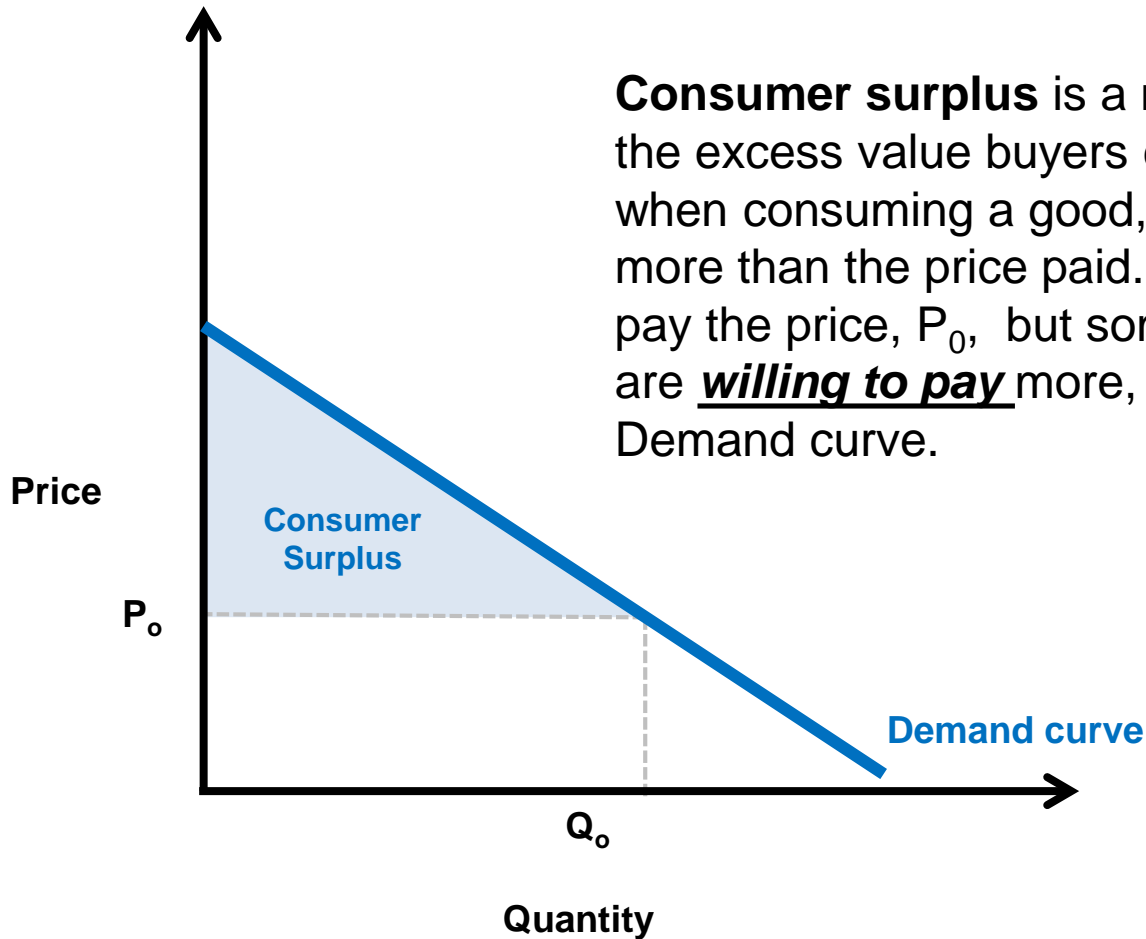
Demand curve

What if people value products much more than the demand curve reveals? When asked how much would they be **_willing to accept_** to give up a product for a period of time OR how much they would be **_willing to sell_** a good, people express values much higher than economists expected.

I call this the **Value curve.**

Critics say the WTP - WTA gap is a flaw in survey methods (Diamond and Hausman 1994, Hausman 2012).

Value curve = WTA or WTS
Cash for something you possess
… often attributed to Endowment effect

Demand curve = WTP
This is classic economics, derived from analysis of real behavior of consumers making choices within budget constraints.

Price

Quantity
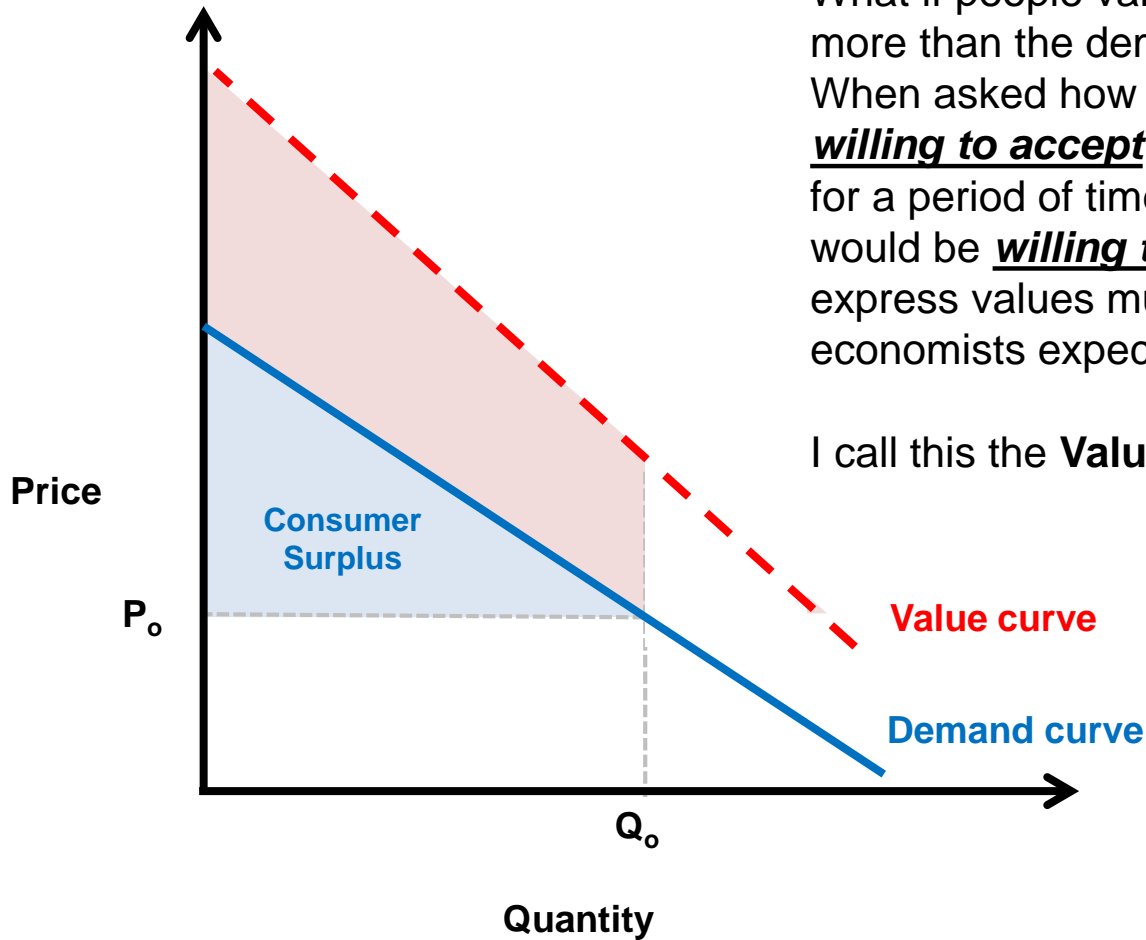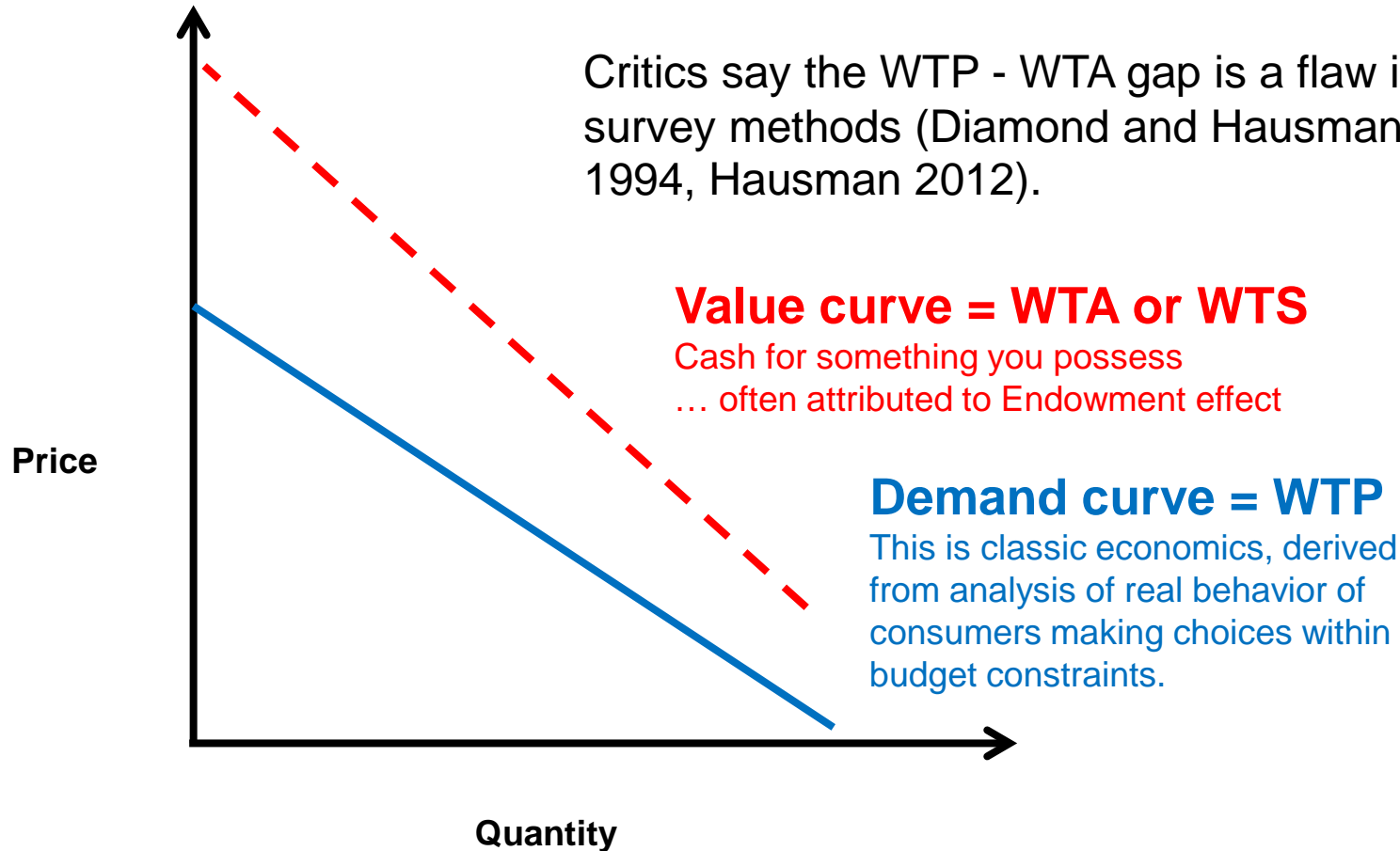
Behavioralists say it represents loss aversion (Kahneman, Knetsch, Thaler 1990). Others say it is the only way to measure environmental & public goods (Carson and Hanemann 2005).
I think they may be missing something.

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Modern Things

"Imagine you agree to stop using this item for ONE YEAR in exchange for a monthly payment. How much would you be willing to accept in dollars per month to not use the item, starting right now?"

	Median	Average
Indoor Plumbing	$ 2,000	$ 30,183
Car	$ 1,800	$ 24,239
Internet	$ 1,500	$ 24,426
Half Housing sq. ft.	$ 1,000	$ 7,717
Antibiotics	$ 1,000	$ 25,267
Lights	$ 750	$ 4,320
Refrigeration	$ 600	$ 3,634
Mobile tech	$ 550	$ 2,322
Dentistry	$ 500	$ 21,522
TV	$ 500	$ 3,326
Credit card	$ 300	$ 780
Screens1973	$ 275	$ 1,013
Highways	$ 250	$ 3,048
Mapping tech	$ 138	$ 1,418
AC	$ 125	$ 846
Coffee	$ 100	$ 808
Shoes	$ 100	$ 947
Microwave	$ 100	$ 402
Vacuum	$ 50	$ 2,148
Painkillers	$ 50	$ 382
Social Networks	$ 50	$ 476
Monthly total	$ 11,737	
Yearly total	$ 140,844	

$43 Trillion

3x GDP

Inequality?

Thomas Hirschl of Cornell University and Mark Rank of Washington University found that, on average, Americans reside along many different income brackets throughout their lives. Using PSID data,1968 to 2011:

- 70% of the population will have experienced at least one year within the top 20th percentile of income.
- 53% of the population will have experienced at least one year within the top 10th percentile of income.

- Social Security offers regressive distribution payments

- Worst inequality is unequal opportunity. Worst of all is unequal educations. 1/7 of US adults are functionally illiterate.

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